



## How industrialization can serve the world

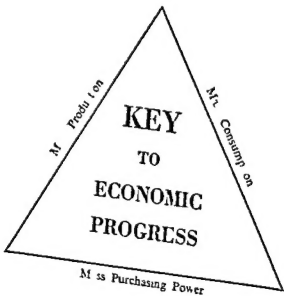
A book on economics necessarily undertake to describe all the main features in the lives of those whose needs are served by the country in which they live.

The relationships of each of these features to the other must be explained. **KEY TO ECONOMIC PROGRESS** sets forth clearly and simply how mass purchasing power, mass production and mass consumption can be combined to bring a rising standard of living to the greatest majority.

The author gives the necessary factors of social and political life their proper weight—so that along with the more technical aspects of productivity, monetary and fiscal policies the prerequisites for Democratic Industrialism are demonstrated.



D G KOUSOULAS



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## ABOUT THE AUTHOR

Dimitrios G. Kousoulas came to the United States in 1951 under a Fulbright Scholarship to study at Syracuse University. He already had his Law degree from the University of Athens, Greece.

Born in Khalkis, Greece, on the Island of Euboea, he spent many years on another Greek island, Crete. In 1943, having had some trouble with the German Occupation Authorities, he went to the mainland. In December 1944, during the Communist revolution, he was arrested by the Communist guerrillas and escaped execution by a day only because a pact was signed between the British Commander General Scobie and the ELAS guerrillas. Later, during the Communist revolt of 1947-49, he served with the Greek Army in Macedonia.

In Syracuse University, he received his M.A. in Political Science in 1953. His thesis was published in the same year by Syracuse University Press under the title "The Price of Freedom: Greece in World Affairs 1939-1953." A Greek translation of this book appeared in 1955. Since April, 1955, he has been contributing a weekly analysis of world events which appears in six Greek daily newspapers regularly.

In 1956, Mr. Kousoulas received the Degree of Doctor of Philosophy in International Relations from Syracuse University.

His familiarity with diverse economic institutions and practices in underdeveloped countries in the United States, and in the Soviet Union, has provided Dr. Kousoulas with a unique background for the preparation of this unusual and absorbing book.



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EPILOGUE

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" The central fact of today's life is the existence in the world of two great philosophies of man and government. They are in a contest for the friendship, loyalty and support of the world's peoples.

With these words President Eisenhower struck the heart of a dilemma mankind faces today. Indeed, one of the basic issues of our time is whether people can attain economic well-being without sacrificing their political and personal freedom on the altar of an omnipotent state. This is not an abstract question; the future of humanity may well depend on how people resolve it.

Since the beginning of civilized society, men who were able to wield political or economic power were in a position to lead and command. In our modern world, a totalitarian State fuses both the political and the economic functions into one monolithic structure controlled by a handful of individuals seated at the top of a single politico-economic pyramid. In a modern democracy, on the other hand, power whether stemming from political or economic activities, is vested in a myriad of separate but interdependent political and economic units. As these units represent practically all segments of society, no privileged



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ing poverty and a small minority in provocative wealth I must confess that I too shared this misconception until I came to the United States seven years ago under a Fulbright Scholarship and observed capitalism in America.

From the first moment I was perplexed by the image of a capitalist country in which there was neither a majority of paupers nor a minority of all powerful rich. For five years I studied the inviting subject with insatiable curiosity. Eventually I became convinced that there was a capitalist country which had somehow put to practice the theoretical demands and promises of the most progressive socialist thinkers above all the quest for fair sharing of the national wealth. And I came to the conclusion that in the United States the old style capitalism had given way to a new economic system based on different principles.

What I had learned I felt should be brought to the attention of my countrymen in Greece who like myself a few years ago had a rather muddled and unrealistic conception of what makes America great. I presented my observations on the present day American economic system in a series of fifteen articles which were published in six Greek newspapers and a political review as part of my regular column on the American scene and the world at large entitled *Letters from Washington*. The favorable reaction in Greece to these articles has encouraged me to undertake this book, written in English so that more people around the world could read it.

\* \* \*

The American system of course is not a utopian panacea which can remedy all the world's social and economic ills with despatch. There is, in fact, no fixed blueprint by which it has developed. Rather there is a set of flexible economic principles developed through trial and error over the years within a framework of democracy. Most signifi-



## Key to Economic Progress

group or class is allowed to gain absolute control over the entire social structure

One of the fundamental characteristics of a developed society is its industrial basis. In this sense both the United States and the Soviet Union have one thing in common: they are industrial states. But at this point the similarity ends. While the industrial system in the Soviet Union is part of a monolithic politico-economic structure in the United States it operates within a democratic framework. On the basis of these general features of the American democracy one may use the term *democratic industrialism* to identify the set of principles which underlie the American economic system today.

\* \* \*

To a world groping for answers the experience of the American people who have an industrial system operating within a democratic framework is of practical significance. The phenomenal growth and achievements of the American system of democratic individualism in terms of individual living standards are an obvious evidence that social justice and economic prosperity can be attained in societies where the individual is free.

Many people tend to regard the progress of America as if it had occurred in a vacuum, ignoring in the process the factors which made progress possible: the political and economic system. Some people, though dedicated to monolithic state systems of economic development, find they cannot ignore the facts and arrive at the awkward position of acknowledging the American achievements but rejecting the system and particularly the economic system of capitalism.

The term capitalism like so many other words in our language has acquired too many meanings to be sufficiently precise. To many it is a notorious word almost universally associated with a vast majority living in depression.

PART ONE



PART ONE



## I—IS THE AMERICAN ECONOMIC SYSTEM REALLY DIFFERENT?

Few Americans would claim their economic system has reached perfection. Like all products of human experience it has flaws and weaknesses. Furthermore it is in a state of constant development. New problems and new needs continuously arise.

An uncompromising perfectionist will find many faults to criticize. But this is neither a constructive nor a realistic approach. What is important is to understand the dynamics of the American economic system which explain its achievement. For the fact is that Americans have achieved the highest standard of living on earth without its criticism. personal and political freedom. With less than seven percent of the world's land area and population, America produces nearly fifty percent of the world's manufactured goods and well over thirty five percent of the world's goods and services. and although their workweek has been constantly reduced the great majority of Americans today have better food, better clothing, better housing facilities, better education, and more varied recreation than ever before.

*America's sources of economic strength*

The phenomenal production of the American economy is often taken for granted by both Americans and foreign



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There is another condition which we shall explore more thoroughly at a later point namely that for population to become a factor in economic progress the people must participate fully in the economic life In other words it is not enough to have many millions of people merely living within an economy The decisive factor is how many people participate fully as producers and, even more important, as consumers

In brief natural resources and growing population—by themselves—cannot guarantee prosperity and progress These factors may be compared to reactants in a chemical process The reactants are inactive until a catalyst is added to transform them into a new compound In the American case the catalyst which activates the various factors and transforms them into prosperity for all is the system—the political and economic system of democratic industrialism.

*The major innovation of the American economic system*

We often hear that the American economic system is something different something unique in the experience of mankind There is little doubt that many of its features are unique and deserve our fullest attention a major part of this book will be devoted to them Some are like the visible parts of an iceberg which loom white above the surface of the sea But to comprehend the uniqueness of the American economic system we must see all its principles including the four fifths beneath the surface

Marx stressed that capitalist production was based on the economic law that labor was a *commodity* and like any other commodity had a certain *value* He defined the value of labor as the sum of a heap of commodities (goods and services) necessary for the survival and repro-

## Key to Economic Progress

Explanations advanced for it are varied some partly accurate others absurd People often credit geography and natural resources as the sole cause America they say is a rich country blessed with fertile fields broad forests and rich deposits of coal oil iron copper and uranium The pre-... the land are suitable for... power and for irrigation

So... whole temperate... enjoys the great ad... 170 million consumers... agriculture can move... artificial barriers to... A soap manu... n selling millions of... to Florida and from... produce millions of... tion costs and sell

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## Key to Economic Progress

duction of the working class According to Marx the capitalist would never pay laborers more than the labor values no matter how much production might increase through technological innovation and higher productivity From this theoretical nucleus most Marxist theory followed including of course the pet theme of capitalist exploitation of the workers

Marx took as his model of the capitalist system the conditions he could observe during his own time Consequently he erred in part when defining the value of labor In his lifetime labor was considered a commodity Indeed in some parts of the world labor is still considered and compensated only as a commodity In the United States however a new element of far reaching significance has been introduced Labor—i.e. every American working for a living—is no longer merely a commodity with a certain value working people are also viewed as potential consumers On the basis of this revolutionary approach many measures have been adopted with one major objective to preserve and expand the purchasing power of the average American

Individual compensation of course is automatically scaled to the economic importance of a person's work Since individuals differ widely in ability energy training and initiative rewards vary under any economic system But the basic point is this under the American economic system the labor force—all working Americans—is in the aggregate compensated in a way that tends not merely to assure its survival and reproduction but also to preserve and expand its purchasing power For in a free economy based on mass production the preservation of the purchasing power of the people is vital

Old style capitalist production was and in some countries still is geared to the satisfaction of a select elite consumer market The exploitation of labor was a very real possibility But when laborer and consumer were com-

combined in one and the same person—when the laborer-consumer became an acknowledged entity—basic principles of the old capitalist system underwent radical changes. The Capitalist could no longer exploit the laborer because the laborer was also a potential consumer. The theory of the “exploitation of the worker” does not apply in a private enterprise economy where working people are also viewed as potential consumers.

This identification of the “laborer-consumer” is a basic innovation of the American system. How deeply this concept has changed American economic thinking is shown by the reaction of the labor unions to the revolutionary process of automation.

Automation is already a reality in American industry. In this advanced form of production the worker is replaced by automatic control devices. In other words automatic controls operate complex machinery and whole factories without direct participation by workers except as supervisory technicians at key points in the process. Automation is not limited to manufacturing plants; so-called electronic brains are taking over the tasks of office clerks, accountants and other white-collar workers.

As a result of automation fewer workers are needed to achieve the same or even greater production goals. Under the old capitalist system workers whose services were no longer needed obviously possessed no value as far as the employer was concerned. This is true if labor is viewed only as a commodity. But now labor is also the consumer who makes mass production economically profitable. Automatic control devices cannot buy the cars, the appliances, the clothes or the food. Thus vast unemployment is incompatible with mass production.

Obviously government, business and labor unions have a common interest in preserving the purchasing power of the laborer-consumer. For this reason men like Walter P. Reuther, Vice President of the American Federation of

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## II—SOME BASIC FEATURES OF THE AMERICAN ECONOMY

From the fundamental principle that *mass production calls for mass consumption which in turn depends upon mass purchasing power* a number of interesting features of the American economic system stem. These features characterize an economic system which does not fit at all the image of Capitalism people in many lands have in mind when they speak of monopolies, exploitation or class struggle.

*Mass production with a small profit per unit*

The pursuit of profit remains a main objective of private enterprise. However far from measuring exploitation of the working class, profits play an extremely vital economic role. In addition to providing a reasonable return for the investor, profits are a *major source of capital* for the renovation and expansion of productive wealth. In 1955 for example the American economy grossed \$391.7 billion. During the same year net corporate profits after taxes amounted to \$21 billion. Of this amount, approximately \$11 billion reached millions of individual investors in the form of dividends and interest. The remaining \$10 billion was used for renovation, expansion and research. Twenty-one billion dollars is undeniably a large sum of money. Note however that it was not the result of a large profit per unit but of a tremendous volume of sales.



Labor-Congress of Industrial Organizations do not dread the advent of automation instead they welcome it. As Mr Reuther has pointed out

" Science and technology have at last given us the tools of economic abundance and we are no longer confronted with the need to struggle to divide up scarcity

We are confident that we will not have to fight the new machines and devices. Rather we will use them to bring health and happiness, security and leisure and peace and freedom to mankind everywhere. (Testimony before the U. S. Congressional Subcommittee on Economic Stability, October 17, 1955)

This confidence is not irresponsible optimism or empty prose. It is based on the knowledge that automation need not lead to vast unemployment. On the contrary it is economically more realistic to expect that in sustaining the purchasing power of the laborer-consumer industry will gain time to develop new products and new jobs. Problems of course will be numerous. It will take foresight and ingenuity to cope with the difficulties affecting individuals and even whole communities. But to use the words of Mr. Reuther, if vast social dislocations are prevented this time it will be only because the combined wisdom of private groups and government will be used to prevent them. In preventing social dislocation and solving the problems associated with the revolutionary process of automation the guide will be the principle that *in order to maintain mass production there must be mass consumption which in turn depends on sustained mass purchasing power.* In the American economic system a high standard of living for the average citizen is not only a matter of humanitarian benevolence but an economic necessity.

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horizontal it must stretch from one end of the country to the other. The other is vertical all strata of the population must have the financial ability to participate in the economic cycle as consumers. This means that in order to maintain a mass consumer market goods cannot remain in short supply for very long. "Luxury" items must quickly be made into items of wide consumption. To this end, the American economy relies on research and constant effort to find more efficient, less expensive methods to produce all goods.

### *Forms of competition*

In a fully monopolistic economy such as that of the Soviet Union the consumer has no choice. He must content himself with the products of monopolistic state enterprises. On the other hand the enterprise sure of a captive consumer public has no compelling economic reason to concern itself seriously with what the consumer might like to have.

The opposite is true in a free enterprise economy. As we shall see later there are at least three different forms of competition in the American economy. One is the direct competition among enterprises producing the same kind of goods. Another is the indirect competition among enterprises furnishing commodities or services of a similar kind e.g. various types of transport, such as buses, trucks, airplanes, railways, river barges, or fuels like oil, gas, coal, and electricity. Finally there is another form of competition or rather an interplay of counterbalancing forces: retailers vs. manufacturers, producers of finished goods vs. producers of basic materials, labor unions vs. employers, consumers vs. producers, and all facing a diffuse yet powerful public opinion.

# Key to Economic Progress

made possible by an existing mass consumer market. A striking feature of the American economy is the small profit per unit realized by most private concerns. One penny profit on each of many millions of cakes of soap amounts to millions of dollars each year.

If the selling price of a product is inflated excessively to assure a larger profit per unit, the consumer public may be unable or unwilling to purchase it. For this reason the American entrepreneur does not try for a large profit per unit. He improves through better methods of production with mass. In the last twenty years United States enterprises percent of total sales

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### Mass purchasing power

Mass production with a small profit per unit is a distinguishing feature of the American economy. But mass production cannot be sustained unless people are financially able to absorb it. After all, production has no *raison d'être* unless it serves human needs. Consequently, mass production depends on mass purchasing power that is on a relationship between wages and prices enabling the greatest number of people to afford the largest volume and variety of products.

In a mass production economy, if prices rise "too much" or wages remain too low in relation to given production, the economy will be in trouble. Through free interplay of business, labor unions, and government, a fine balance is kept so that a mass consumer market is sustained.

### The two dimensions of a mass consumer market

For a consumer market to be both stable and a factor for progress, it must have two dimensions. One is born

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If the selling price of a product is inflated excessively to assure a larger profit per unit, the consumer public may be unable or unwilling to purchase it. For this reason the American entrepreneur does not try for a large profit per unit. He aims to reduce costs through better methods of production and to combine mass production with ~~mass~~ sales and a small profit per unit. In the last twenty years the average net profit retained by United States enterprises has not exceeded more than five percent of total sales.

### Mass purchasing power

Mass production with a small profit per unit is a distinguishing feature of the American economy. But mass production cannot be sustained unless people are financially able to absorb it. After all, production has no *raison d'être* unless it serves human needs. Consequently, mass production depends on mass purchasing power, that is, on a relationship between wages and prices enabling the greatest number of people to afford the largest volume and variety of products.

In a mass production economy, if prices rise "too much" or wages remain too low in relation to given production, the economy will be in trouble. Through free interplay of business, labor union, and government, a fine balance is kept so that a mass consumer market is sustained.

### The two dimensions of a mass consumer market

For a consumer market to be both stable and a factor for progress, it must have two dimensions. One is horizontal

Important sector of human relations. Employees are no longer regarded as mere hands—they are considered individuals entitled to respect. The psychologist has become an indispensable staff member of many corporations. The result is a healthier relationship between management and workers.

This is not intended to rely to win good will for its own sake. This healthier relationship is actually a prerequisite for higher productivity. In a free mass production economy good human relations are an integral part of the scientific methods used to assure economic progress.

### *The search for talented men*

In the competitive American economy talent is highly valued. Since talent is not necessarily passed on from father to son the old type of family business has gradually given way to the modern corporation.

In this type of business organization a new professional is coming to the fore—the business executive. His origin as an individual has family background and similar considerations are not of prime importance. Talent for administration, intelligence, education ability—these are the qualifications that count. The penniless immigrant or the son of a miner can reach the top and become chairman of a giant corporation like U. S. Steel or Twentieth Century Fox—as Benjamin Fairless or Spyros Skouras has done.

The son of a high executive has a better chance to follow in his father's footsteps if he can prove equal to the demands of leadership and responsibility. However, in a competitive economy an enterprise can hardly afford to be burdened with dead weight for too long.

*A mind new of thinking for the industrialist*

These new professional men—the business executives—

## Key to Economic Progress

Constant search for new products and methods  
A competitive economy has little room  
and self satisfaction.

A competitive economy has little room for complacency and self satisfaction. If a rival develops a better mouse trap—a better product—your position in the market will be weakened. It is essential therefore for the businessman to keep constantly alert. To accept dogma instead of thinking to maintain progress is the way we have been doing things abnormally to old attitudes and obsolete ideas for private enterprise in a free world. The slogan of the General Electric Company is "Progress." American business has to develop new and better products than the more efficient than more inventive is no longer the lonely effort of the lone inventor but a conscious process as one of its most important functions. American corporations spent six billion dollars last year on research and development.

Today become a major task of  
The scientist, the

The scientist the educator  
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Constant search for the new the more efficient the more useful or the more attractive is no longer the lonely effort of an often misunderstood inventor but a conscious process carried on by business as one of its most important functions. In 1957 alone American corporations spent six billion dollars for research and development.

## Business and education

Scientific research has today become a major task of American private enterprise. The scientist the educator the specialist is no longer a stranger to the business world. Nor is the modern businessman the uncouth person often portrayed by cartoonists. More often than not he and it is now quite common to find him and educators on the top levels of corporations. The interdependence of business and education is another striking feature of the

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### Key to Economic Progress

are not uniform standardized business wizards. Their human beings with the strengths and limits of other everywhere. Their motivations vary just as much as their personal tastes and backgrounds. They seem, however, to have one thing in common: a realistic attitude toward the social function of business. The day of the industrial who thought began and ended with the word "profit" is past. The complexity of modern business has made it clear to all that the business must serve the community.

The complexity of modern business and its influence on all aspects of society demand that the business executive of today be concerned not only with profits, market production curves, but also with the larger social structure of which business is a part. Modern business executives must be primarily interested in sustained prosperity—in quick, irrefragable profit making. Thanks to a broad liberal education, a better understanding of the business and more business executives are now socially responsible men at the highest level of American

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labor unions in a free economy

In addition to private enterprise and a vigilant government the system depends for its smooth functioning on the existence of free and strong labor unions. By their constant pressure for more benefits to the workers unions have been instrumental in the development and preservation of a mass consumer market.

American labor unions in the twentieth century in large part because of the influence of Samuel Gompers a long time president of the AFL, accept the basic tenets of the free enterprise system and concentrate their efforts on gaining a larger share of the nation's income for their members. The American worker's high standard of living proves that his wisdom in having chosen this path. Labor leaders best serve the long term interests of wage earners if they live up to their responsibility to the nation as a whole and view labor as part of an over all social structure. More and more labor leaders are proving equal to the task.

*The American government as a balancing factor*

The federal government is another factor of prime importance in the economy. Though there may be differences of opinion over the proper extent of its role there is no serious disagreement as to the existence of such governmental responsibilities. In an economy based on private enterprise economic



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### The important role of advertising

The social and economic significance of advertising in the United States today can hardly be overemphasized. Though it often comes under sharp criticism for alleged misdeeds, the advertising industry plays a leading role in America's progress. America's production economy requires a wide audience, and it is up to the advertising industry to deliver this.

The American economy must  
 in the product which the  
 consumer desires  
 maintain its intensity  
 and it is to  
 avoid social distinctions and

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## Key to Economic Progress

constant effort is made in the United States to adjust machines to the needs of the human beings who operate them. Factories redesign machinery to eliminate awkward controls and modify work routines which require too much stooping bending or carrying. As for uniformity of products most American enterprises achieve some degree of individuality in articles where individuality counts most. Certainly no American woman can complain that women's clothes are depressingly uniform.

Aside from these considerations critics of mass production seem to overlook its main effect. They forget that masterpieces of old which we admire today in museums or stately mansions do not present a true picture of the past. Possession of those articles we consider today to be products of a high culture was restricted to a small privileged minority. A silver cup designed by Benvenuto Cellini is undoubtedly a masterpiece but it was created for a king or a prince not for ordinary people. For a long time culture was a "luxury item" reserved for the privileged few.

Before the advent of mass production people did differ an aristocrat or a wealthy merchant lived in a different world from the lower classes. Less than a century ago—and in some countries even today—a visitor from another planet would have had no difficulty in distinguishing between an aristocrat and an innkeeper because of their sharp differences in action and dress.

Mass production has changed this in the United States. By making most products available to most people it has led to considerable elevation of the general cultural level and has toned down marked differences. Go to an American church on a Sunday morning. If you expect to learn who is a wealthy businessman and who is a worker who is the mayor's wife and who is the janitor's daughter by the way they dress and behave you will have a rather difficult time.

A basic objective of Americans is that the greatest majority of the people should be able to afford the widest variety of products and services. American industry constantly strives to transform as many of today's luxury items as possible into items of wide consumption.

This does not mean of course that Americans expect to eliminate luxury items altogether. One of the many manifestations of progress is the development of new products. Inevitably every such new product is in short supply at the beginning until method for its mass production is devised. By the time this is accomplished new products are created and the process starts over again. Unless we put a ceiling on progress and ban new products there can never be a time when there will be no luxury items. In spite of certain promises the day when everyone will have according to his need seems rather remote if by this time everyone is to have all the needs of even luxury goods.

At the same time technology and increased productivity may reduce the lag between development of a new product and its mass production and distribution. American free enterprise has constantly reduced the time gap between stages of production.

### *High wages and low prices*

The relationship of prices to wages and salaries is important in sustaining a mass consumer market. It is quite natural for the consumer to favor low prices. He can then buy more products with his money. On the other hand the producer naturally favors high prices and low wages. In this way he can realize the highest possible profit per unit. This is basic thinking under the old capitalist system. But democratic industrialism and mass production have introduced new economic thinking. In view of the close relationship between mass production

*Key to Economic Progress*

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Quite often negotiations are protracted and arguments become heated but as a rule a compromise solution is reached. One may cite as examples the agreement giving the automobile workers a guaranteed annual wage or the recent increase of \$2.50 per day for miners (See Chapter X). The key factor in the constant readjustment of prices and wages is productivity.

*How does productivity increase?*

Productivity in the United States has increased regularly on an average of 2 percent yearly during the last fifty years. Productivity of course does not increase automatically nor does it come about by natural law. On the contrary the increase in productivity of American industry and agriculture has been the result of practical incentives and imaginative techniques.

The motive of profit, for one makes increasing productivity a *must* in an economy of competitive private enterprise. The sound way to increase profits is to cut the cost of production per unit and expand the margin of profit by increasing productivity, i.e. by using both capital and labor more efficiently. This is what American industry and agriculture have done with remarkable vigor.

To this end American enterprises have relied heavily on scientific research and have introduced with the least possible delay innovations able to increase productivity. A recent study of American economic development (*America's Needs and Resources: A New Survey* by J. Frederic Dewhurst and associates) points out that the net output of goods and services in 1950 was twenty five times what it was in 1850 while the working force increased only eight times. Allowing for the shorter work week of 1950 the American economy with less than five times as large an actual input of human energy achieved

## Key to Economic Progress

and mass consumption it is clear that the long range interest of the producer lies not in quick and high profits per unit but on a sustained mass consumer market. This market obviously depends on wages and prices which permit the largest number of people to afford the widest variety of products. Thus high wages and low prices are not only in the interest of the consumer but also of the producer.

Of course the phrase high wages and low prices is not very precise. What really counts is the relationship between prices and wages not their actual level at a given time.

Yet if there is a broad community of interest between laborer-consumer and producer—the reader may interject—why are there labor disputes in the United States? One should not lightly dismiss human weaknesses which often take precedence over sound economic thinking. Still disputes may arise from an honest difference of opinion over a very important factor—productivity. Without an increase in productivity an increase in wages will create inflationary pressures. But productivity cannot be measured accurately in all types of work. Until more precise measures of productivity are developed labor management disputes are bound to come up. However U. S. labor management dispute has lost much of its extremity but terseness of earlier days. More often than not they are resolved at the conference table through collective bargaining. Estimates prepared by the U. S. Bureau of Labor Statistics show that in 1947 for example, out of every 25 new labor management contracts there were negotiated peacefully. Between 1947 and 1955 there was a net loss of time from strikes was less than 1 percent of the total man-days worked. And in 1954 the total loss of man-days worked was only 0.4 percent of total man-days worked.

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an over all production twenty five times as large as that of 1850 In other words U S labor productivity in the last hundred years has multiplied more than five times It would have taken a worker three weeks at 70 hours per week in 1850 to produce as much as an average worker turns out today in a single 40 hour week If the present rate of productivity increase continues in another hundred years the American economy will produce as much in one 7 hour day as it now produces in a 40 hour week.

How did this great increase in productivity per worker come about? Certainly it did not result from the ability of the average man to produce more with his muscle power Productivity is only to a limited degree either the result or the measure of labor efficiency The competence of management the skill of the individual worker or the diligence of the farmer have been secondary factors in the sharply ascending productivity curve over the past several decades The most energetic and skillful shoe maker working long hours under the ablest supervision but with the handicaps of a century ago could not approach the output of today's semi skilled operator who works fewer hours but with power driven machinery The fabulous increase in U S productivity has been achieved not because Americans now work harder or more skillfully it has been the result of constant effort to devise and use better technique and more and better machinery America has multiplied the output of human effort through vast inanimate energy

Nevertheless skill effort and the cooperation of the individual in the process of production continue to be of great importance Their lack can detract at least decrease the efficiency of good machinery planned factory organization and ample power Recognizing this American business management has given particular attention

to the human factor in production. Management psychologists have shown that the moral of the worker is vitally important in increasing productivity.

Industrial psychology is a new branch of science which deals with the human factor in production. It began practically speaking only three decades ago almost by accident. One corporation the Western Electric Co. wanted to determine to what extent production would increase if lighting were improved in a department where girls assembled telephone equipment. To everyone's surprise including the psychologists it was found that merely experimenting with the lighting brought greater production—regardless of whether light was increased or decreased. Production even rose when the experimenters pretended to put in stronger light bulbs but actually put the same ones back.

Western Electric realized something strange was happening the firm spent five years hunting the true reason for the production rise. Finally it dawned on the researchers the workers simply responded to attention being paid them. The experiment itself told them the company was interested in them, they felt important—and they worked harder.

Other interesting and useful psychological discoveries have followed. The researchers have learned for example that the old time industrialist was utterly mistaken in his belief that his employees would accomplish more if kept on the job for ten or twelve hours. They have learned that rest periods contribute to efficiency as a result the coffee break during which workers stop to rest and talk is universal in American business.

Also at least partly as a result of their researches the modern American factory is a masterpiece of industrial architecture often located in pleasant rural surroundings—and is a far cry from the London sweat shops of

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Nevertheless skill effort and the conversion of the individual in the process of production must continue to be of importance. Their lack in Japan is a well attested cause of the inefficiency of good machinery. The factory organization and ample power. Recently American business management has given particular attention

ican economy. Incentives determine the willingness of human beings to work and produce. Recognition of personal dignity, decent working conditions, a sense of purpose and material incentives are all considered indispensable factors in achieving greater productivity. In such a framework, the Marxist concept of "class struggle" (i.e. class oppression by the capitalists vs. class rebellion by the workers) has no place. Indeed, it is incompatible with democratic industrialism because it hinders productivity.

*Increased productivity and a rising standard of living*

Lenin once wrote "Surplus capital will never be utilized for the purpose of raising the standard of living for the masses for this would mean a decline in profits for the capitalists. An elementary understanding of the American economic system betrays the absurdity of Lenin's statement. For increasing productivity has gone hand in hand with a rising standard of living for the masses. The improvement in the standard of living is expressed in the relationship of wages and prices. The present-day American wage-earner can buy more and better goods while working less time than ever before in history.

The surplus capital created by increased productivity has been used steadily to raise the living standards of the masses again for the reason that mass production requires mass consumption and both depend on mass purchasing power.

For practical results, consider the work time necessary to earn the price of consumer items in the two largest industrial nations of our time. The average American worker must work eight or ten hours to buy a pair of shoes. His Soviet counterpart must work 70 to 100 hours to buy a pair of comparable quality. The American must work 25 to 30 hours to buy a suit; the Soviet must work 100 to 140 hours. With one hour's wages the American can buy more than

## Key to Economic Progress

Karl Marx experience Not long ago I visited the workers club at the International Business Machines plant in Poughkeepsie N Y It included a theater with a gigantic revolving stage bowling alleys tennis courts, shooting galleries a golf course library swimming pool and lounge.

More than 25 000 American companies maintain recreational program for their employees according to the National Industrial Recreation Association of Chicago. Ill industry spent a billion dollars in 1956 alone on recreation for employees. Today most American firms have large trained industrial relations staffs experts who are trained in the technique of furthering a healthy relationship between company and employees. Their guiding principle is that high morale is basic to high productivity.

The constant drive toward productivity is not confined to industry and agriculture. It is important. The American farmer can harvest his land more efficiently. The most personal incentive to the farmer is the prospect of a larger crop per acre. In his home he can see his family.

While industry has been increasing its production, the population has likewise expanded. Even the most fertile land has likewise been used. The only way to meet the increasing demand for food is to increase productivity per acre.

Aided by industry and government, the farmer has been able to increase his productivity. He has been able to utilize his land more efficiently. He has been able to increase his production. He has been able to increase his income. He has been able to increase his standard of living. He has been able to increase his contribution to the nation's economy. He has been able to increase his contribution to the world's economy.

Increased farm productivity has been the result of many factors. One of the most important is the use of modern machinery and equipment. Another is the use of modern fertilizers and pesticides. A third is the use of modern irrigation systems. A fourth is the use of modern transportation systems. A fifth is the use of modern marketing systems. A sixth is the use of modern processing systems. A seventh is the use of modern storage systems. A eighth is the use of modern distribution systems. A ninth is the use of modern retail systems. A tenth is the use of modern service systems. A eleventh is the use of modern information systems. A twelfth is the use of modern communication systems. A thirteenth is the use of modern entertainment systems. A fourteenth is the use of modern health systems. A fifteenth is the use of modern education systems. A sixteenth is the use of modern social systems. A seventeenth is the use of modern political systems. A eighteenth is the use of modern economic systems. A nineteenth is the use of modern legal systems. A twentieth is the use of modern cultural systems. A twenty-first is the use of modern religious systems. A twenty-second is the use of modern philosophical systems. A twenty-third is the use of modern scientific systems. A twenty-fourth is the use of modern technological systems. A twenty-fifth is the use of modern artistic systems. A twenty-sixth is the use of modern literary systems. A twenty-seventh is the use of modern musical systems. A twenty-eighth is the use of modern dramatic systems. A twenty-ninth is the use of modern theatrical systems. A thirtieth is the use of modern cinematic systems. A thirty-first is the use of modern television systems. A thirty-second is the use of modern radio systems. A thirty-third is the use of modern newspaper systems. A thirty-fourth is the use of modern magazine systems. A thirty-fifth is the use of modern book systems. 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ican economy Incentives determine the willingness of human beings to work and produce Recognition of person's dignity decent working conditions a sense of purpose and material incentives are all considered indispensable factors in achieving greater productivity In such a framework the Marxist concept of class struggle (i.e. class oppression by the capitalists vs class rebellion by the workers) has no place Indeed it is incompatible with democratic industrialism because it hinders productivity

### *Increased productivity and a rising standard of living*

Lenin once wrote "Surplus capital will never be utilized for the purpose of raising the standard of living for the masses for this would mean a decline in profits for the capitalists An elementary understanding of the American economic system betrays the absurdity of Lenin's statement For increasing productivity has gone hand in hand with a rising standard of living for the masses The improvement in the standard of living is expressed in the relationship of wages and prices The present-day American wage-earner can buy more and better goods while working less time than ever before in history

The surplus capital created by increased productivity has been used steadily to raise the living standards of the masses again for the reason that mass production requires mass consumption and both depend on mass purchasing power

For practical results consider the work time necessary to earn the price of consumer items in the two largest industrial nations of our time The average American worker must work eight or ten hours to buy a pair of shoes his Soviet counterpart must work 70 to 100 hours to buy a pair of comparable quality The American must work 25 to 30 hours to buy a suit the Soviet must work 100 to 140 hours With one hour's wages the American can buy more than

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a kilo of meat, while his Soviet equal must work three or four hours. In 20 days the American can earn the price of a modern refrigerator or electric stove; the Soviet must work at least two months for these items.

Americans have reaped the rewards of productivity not only in material products but also in leisure time and recreation. These have been blessings of increasing productivity. Leisure time has nearly doubled for the average employed American since 1900 and seems likely to keep on increasing. Figures compiled since 1910 indicate that Americans have tended to take two-thirds of the potential increase in leisure time and the remaining third in short working hours and more leisure time. This increase in leisure time in the last 10 years has been...

This important time has been instrumental in the development of new multi million dollar industries. The present cultural pursuits or render services for recreation and cultural pursuits. The new industries serve the human mind and spirit. Fifty years ago, the habits of Americans would have been very different. The new industries have brought about a change in the habits of Americans.

The new industries of America... neither would... and higher per... the cultural eleva... United States culture is... praxandistic pr... symphony or... million books

At present, however, the trend is towards a reduction of improved machinery and higher worker productivity in turn price and values will be set.

that, with fewer hours of effort people will be able to buy more and better goods. This is not idle prophecy it is sound prediction based on the American economy's past and present.



A vast majority of all strata of people must take part in the economic process as consumers. The market must have both "width and depth." In many countries, it has the former but not the latter—that is, the market is shallow. No matter how populous these countries may be, production—and prosperity—must remain limited. Their consumer markets lack depth.

In the United States there was a constant effort over the years to achieve both, with the stress first on "width," and now on depth.

The first objective was accomplished by removing obstacles to free, unrestricted flow of interstate commerce.

#### *Removing man made obstacles to trade*

The unsatisfactory experience of the original 13 American states in developing interstate commerce under the Articles of Confederation was influential in the thinking of the men who framed the Federal Constitution in 1789. Article I, Section 10 established that no State shall without the consent of Congress lay any imposts or duties on imports or exports. This in effect, created a free trade area within the boundaries of the United States.

At the same time the Constitution made the Congress responsible for regulating commerce between the states and with foreign nations.

In these early years of the new nation most commerce was carried via water along the Atlantic seaboard and the river waterways. Roads were few and primitive and land transportation costly. For these reasons the first detailed legislation affecting interstate commerce dealt with sea and river navigation.

The freedom of interstate commerce from local interference was also strengthened by several early decisions of the U. S. Supreme Court. In 1824 the Court ruled that if there is any one object riding over every other in the





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miles of tracks of all kinds—the total exceeding 25 times the circumference of the earth. Running on these tracks are some 43 000 locomotives two million freight cars and 44 000 passenger coaches and sleepers, plus another 1 0 000 cars of special or auxiliary types.

In addition there are nine million trucks on American roads and about 30 000 interstate and long-distance buses, travelling between cities and towns and serving rural areas. Last year 53 million motor vehicles—44 million of them privately-owned—travelled more than 500 billion miles!

The most important early means of transportation the water routes have continued to play an important role in American economic life. Inland waterways have greatly expanded their traffic capacities having been improved by locks and dams and by the introduction of specially designed diesel-driven towboats. Raw materials agricultural products and fuels still comprise the bulk of waterway cargo but semi finished and finished goods, like iron and steel products petroleum goods chemicals and machinery are now being carried via lakes rivers and canals in increasing volume.

The startling expansion of air transportation can hardly be overlooked. Today more than 25 million people travel by air each year within the United States. Equally the telephone and telegraph networks are now so finely dispersed that even comparatively sparsely settled areas are well served. Currently there are more than 50 million telephones in use throughout the United States.

If we were to confront a map of the American nation that showed railroads canals navigable lakes and rivers swirling highways and the communications systems we would see a veritable maze of criss-crossing lines. Like the arteries of the human body these arteries of transportation and communication channel the life-blood of the American economy to the remotest corners of the land. They make the horizontally wide market a reality.

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adoption of the Constitution it is to keep commercial intercourse among the States free from all invidious and particular restraints.

Later decisions established that powers granted to Congress over interstate commerce by the Constitution were not confined to whatever was known or in use at the time of the Constitution's adoption but followed the progress of the country. By 1890 the development of the railroads led the Congress to enact the first Federal laws regulating overland interstate commerce.

These early attempts at interstate commerce had their opponents. In some instances up to the pressure of state legislation in the early interstate commerce. But time after time the Supreme Court held such regulations to be within the power of Congress. It considered as an elementary and fundamental principle that there can be no division of power between Congress and the States. Throughout the years the Court has held that the power to regulate interstate commerce is an exclusive power of Congress. It is a power that in its nature is national and the same principle applies to the regulation of interstate commerce.

### The rule of

Legislation is the end of a unitary production of a wide market. It would be sold in the United States. Without the growth of American legislative abolition of been meaningful.

The greatest American since the end of the Civil War in the 20th Century railroads in the United States. 240,000 miles of main tracks and

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But width alone is not enough. A mass consumer market must also have depth. To achieve depth government business and labor have worked together and separately to re-stratify personal incomes. Often not all parties were conscious that the end result of their efforts was development of the mass consumer market. Moves varied. Yet planned or not the outcome has been the growth and maintenance of the market.

The basic part of this market is the growth of families. Statistics show that the number of families in the United States has increased from 40 million in 1900 to 60 million in 1950. This increase has been the result of a number of factors, including the increase in the birth rate, the decrease in the death rate, and the increase in the life expectancy of the population.

The basic part of this market are the middle income families. Statistical studies demonstrate that an increase in personal income is not necessarily followed by an equal increase in consumption. A family with a total income of \$1700 is likely to spend almost the entire amount on consumption. On the other hand, a family with a \$15000 income may spend only \$2000 on consumption and save the rest. A family with a very high income may save \$50000 after taxes may have and invest more than two-thirds of the total. Only a very few families do not increase in direct proportion to their income.

A low income family may have a small increase in consumption.

A low income family may find all its money for consumption very small. The high income family will still be rather small. The rich man's hand is apt to spend only a small fraction of his income on consumption— withholding the rest for other purposes. The poor man's market can do little more than supply his necessities. It is a wealthy minority that muddles the consumption of the masses on a vast scale. The poor man's consumption is around a level where he is satisfied with his income. The rich man's consumption is a vast luxury. The poor man's consumption is a vast necessity. The rich man's consumption is a vast luxury. The poor man's consumption is a vast necessity.

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phism or d liberated planning. Yet government, business and organized labor have contributed in many ways to its growth. Other measures were taken for humanitarian reasons, to improve the lot of working people and democratic institutions undertook to correct the inequalities of the old capitalist system. When these measures proved economically sound, they became integral elements of the new system.

Other changes have been the result of practical experience and economic necessity. In 1914 Henry Ford raised the daily minimum wage of his auto workers to \$5. At the time he was probably interested in attracting more skilled workers to his factory in order to step up production, cut the cost per unit and sell at a lower price—thereby increasing his sales volume. He may not have understood the vast implications of his decision, which is often cited as the beginning of the new approach to prosperity through mass production and consumption. Aware of the implications of the system which were already in the shaping to adopt a labor and wage policy destined to have a broad impact on American economic thinking.

As might be expected, the Ford wage policy was not greeted by contemporary businessmen with enthusiasm. It did violence to their conception of old style capitalism. In blazing new trails of business behavior Ford, like most pioneers encountered derision and antagonism. Colleagues and competitors resented the intrusion of new practices. In their well-known shells they felt safe. Who knew what lay outside?

But times were changing fast. The American industrialist today accepts as basic such concepts as "mass production and small profit per unit" and "high wages and low prices." He recognizes the need for a great bulk of middle income families.

The continuing growth of the middle income group is



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A low income family may well spend all its money for consumption, yet it still will be rather small. The high income family on the other hand is apt to spend only a small part of its income on consumption— withholding the rest in various forms of mass consumption. It is the mass consumer market can depend on it. The vast majority of the population is a wealthy minority. It is the vast majority of the population on a vast middle income level. It is the vast majority of the population around a level where the vast majority of the population consume is satisfactory.

The re-stratification of personal income

The development of the mass consumer market has been the result or even the objective of the

tax. Indeed, to take home \$64 000 a TV quiz contestant must win almost \$500 000

Hard as the progressive taxation system may seem on the quiz winner its purpose is not to punish wealth. On the contrary American tax laws contain many provisions intended to channel the greater income of the wealthy into productive sectors of the economy. This is accomplished by taxing investment income more leniently.

On the whole the American taxation system is fair as well as economically sound. By levelling income differences and strengthening middle income groups it has been a major factor in developing the American mass consumer market.

### *Consumer credit and the American market*

Consumer credit has been criticized for several reasons yet it has played a key role in the development and maintenance of the American mass consumer market. Let us see how consumer credit operates in practice.

Consider a young couple married just a year and expecting a child. They earn \$5 000 and would like to have a house that sells for \$15 000. Their income and way of life allow them to save perhaps \$800 or even \$1 000 annually. Under these conditions they would have to save for 15 years to buy the house. But by then their child will be grown and preparing to leave his parents for a separate life. The couple would no longer need a house and the market for houses would have lost a customer.

There are millions of new families facing similar circumstances obviously if the price of houses had to be paid in full at the time of purchase the demand for houses would be sharply reduced. At this point consumer credit steps in. Our imaginary couple with an income of \$5 000 a year cannot buy a \$15 000 house all at once. But over 20 years the family will have earned an income of \$100 000. So



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using consumer credit they buy the house now—when they really need it—and pay for it little by little while they enjoy its use.

The buy now pay later concept has vastly changed the habits of the American consumer. He can buy on credit everything from a dress or a pair of shoes to a stove or a tractor. Hundreds of thousands of housewives visit the stores every day and make huge numbers of credit purchases. They use charge accounts which enable customers to defer payment for goods until a specified time. When credit is extended in a charge account the customer pays no more than if he had paid in cash at the time of purchase.

In the other kind of credit buying, on the well known installment plan, the sum total of the installments equals the cash price plus a carrying or service charge. If Mrs. Jones wanted a new washing machine that carried a price tag of \$199 she might decide to buy it on an easy payment plan. She might make a down payment of \$5 and 12 monthly payments of \$15.50 each. This would add up, however, not to \$199 but to \$385. The additional \$186 would be the carrying or service charge. Still Mrs. Jones preferred to buy on the installment plan and not for cash. Why? Because it is so useful that she would have paid the entire amount in advance. If on installment plan makes it possible for her to enjoy the things they want when they want them.

The American has a tendency to enjoy the things of carrying charge. If she had \$199 and wanted a washing machine, she would have paid it in cash. But if she had a charge account, she would pay for all of them later. Thus she enjoys the things she needs and would prefer that their better values did not have to be paid in advance.

irresistible inducements to buy. But husbands too think quite highly of installment plans as a method of acquiring a new car. In any case, consumer credit is an important fact of American economic life.

None of the criticisms of consumer credit are totally unfounded. It has been pointed out that consumers could save the necessary sums and buy goods for cash, avoiding the extra carrying charge. Yet it seems a quirk of human nature that people are more likely to save in order to pay debts than to put money aside for later purchases.

Other critics say consumer credit exerts inflationary pressure on the economy. While not wholly invalid, this charge should not lead to the extreme step of banning credit as altogether harmful. In practice, American consumers have been moderate in their use of credit. They have tended to borrow less than their total holdings. Thus in 1954 Americans owed \$75 billion in housing mortgages, \$30 billion for durable purchases, charge accounts and personal loans, and \$10 billion for so-called financial loans—that is, loans from banks and insurance firms. The total consumer debt was about \$115 billion.

This is a staggering sum, acknowledged. Yet, at the same time, American consumers held claims on others for \$380 billion. Consumers were owed a large part of the business debt, as well as a large part of the sums owed by financial institutions in the form of insurance policies and bank deposits. All in all, American consumers have tended to spend less than their total incomes.

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The American system has developed a variety of incentives and devices over the years to meet specific economic needs. The Federal government through trade, social and fiscal legislation; the business community through increased productivity; consumer credit and contractual

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In the other kind of credit buying, the well known installment plan, the sum total of the installments equals the cash price plus a carrying or service charge. If Mrs. Jones wanted a new washing machine that carried a price tag of \$19, she might decide to buy it on an easy payment plan. She might make a down payment of \$5 and 12 monthly payments of \$1.50. This would add up to \$17. However, the additional \$16 would be the carrying charge. Still Mrs. Jones preferred to buy on the installment plan and not for cash. Why? Because she would have paid the entire amount in 12 installments. The installment plan makes it possible for her to enjoy the things they want when they want them.

The American has not been burdened with cash. If he had in cash he would have paid for it down payment. The installment plan—there is no doubt about it—has made it possible for the man and woman to buy the things they need and want. They would prefer that their better friends did not

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## VI—COMPETITION OR MONOPOLIES

A major theme of Marxist theory is that a capitalist economy leads toward ultimate concentration of wealth in a few gigantic enterprises whose owners will exploit without restraint a vast expropriated proletariat. Wealth and power will concentrate in the hands of huge monopolies, and the fruits of labor will be enjoyed by a few mighty overlords while labor is left enough for mere subsistence. The argument is often heard that the American economy is dominated by these monopolies and that they really control the political and economic life of the nation. Against this we have the evidence that rampant exploitation is economically impossible in a system based on *mass production and mass consumption* and the American claim that theirs is a competitive economy. This important issue merits close study.

*Monopoly or price competition?*

It may be helpful to recall that "monopoly" (one seller) means in effect complete lack of competition. In an economy dominated by monopolies the consumer has *no choice* but to buy the products of monopolistic enterprise. There is no other supplier and this is the essence of monopoly. In practical effect, the monopolistic enterprise deals with a *captive consumer*. Dealing with a captive consumer monopolistic enter-



less feasible. Costs of production become more or less uniform throughout an industry, the prices of raw materials vary little, the margin of profit is practically the same for similar enterprises, wage agreements with labor unions often cover not just the workers of one enterprise but the workers of an entire industry. For these reasons, the pure price competition of laissez faire capitalism applies in only a small sector of the American economy.

In many cases, unrestrained price competition is not desirable. As the components of cost and consequently of selling price become more uniform, a price-slashing war among rival producers may not be advantageous to the over-all economy. It may lead to dangerous reduction of profits and curtailment of funds for expansion and renovation. Some enterprises facing failure may resort to the expedient of lowering quality standards. Furthermore any attempt to minimize losses by lowering wages would be bitterly opposed by labor unions and might have serious social consequences. In brief, unrestrained price competition could undermine the very foundations of the system if it were applied at all times and in all cases.

### *Combating monopolistic practices*

The strong opposition of the American public to unrestrained monopoly is not a recent phenomenon. This hostility toward unrestrained monopoly and questionable business combinations goes back to the days of the American colonists. One cause of the American Revolution was the attempt of English commercial and industrial interests to obtain through legislation monopolistic power over the import of manufactured goods into the colonies. British capitalists also wished to curb colonial manufacturers and make England the sole market for colonial raw materials.

Throughout its history the American nation has held the conviction that individuals should be free to exercise



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# THE DECLARATION OF INDEPENDENCE

[July 4 1776]

*The unanimous Declaration of the thirteen united States  
of America*

WHEN IN THE COURSE OF HUMAN EVENTS it becomes necessary for one people to dissolve the political bands which have connected them with another and to assume among the Powers of the earth the separate and equal station to which the Laws of Nature and of Nature's God entitle them a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation

We hold these truths to be self-evident that all men are created equal that they are endowed by their Creator with certain unalienable Rights that among these are Life Liberty and the pursuit of Happiness That to secure these rights Governments are instituted among Men deriving their just powers from the consent of the governed That whenever any Form of Government becomes destructive of these ends it is the Right of the People to alter or to abolish it and to institute new Government laying its foundation on such principles and organizing its powers in such form as to them shall seem most likely to effect their Safety and Happiness Prudence in deed will dictate that Governments long established should not be changed for light and transient causes and accordingly all experience hath shewn that mankind are more disposed to suffer while evils are sufferable than to right themselves by abolishing the forms to which they are accustomed But when a long train of abuses and usurpations pursuing invariably the same Object evinces a design to reduce them under absolute Despotism it is their right, it is their duty to throw off such Government and to provide new Guards for their future security—Such has been the patient sufferance of these Colonies



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tenure of their offices and the amount and payment of their salaries

He has erected a multitude of New Offices and sent hither swarms of Officers to harass our People and eat out their substance

He has kept among us in times of peace Standing Armies without the Consent of our legislature

He has affected to render the Military independent of and superior to the Civil Power

He has combined with others to subject us to a jurisdiction foreign to our constitution and unacknowledged by our laws giving his Assent to their acts of pretended legislation

For quartering large bodies of armed troops among us

For protecting them by a mock Trial from Punishment for any Murders which they should commit on the Inhabitants of these States

For cutting off our Trade with all parts of the world

For imposing taxes on us without our Consent

For depriving us in many cases of the benefits of Trial by

Jury

For transporting us beyond Seas to be tried for pretended offences

For abolishing the free System of English Laws in a neighbouring Province establishing therein an Arbitrary government and enlarging its Boundaries so as to render it at once an example and fit instrument for introducing the same absolute rule into these Colonies

For taking away our Charters abolishing our most valuable Laws and altering fundamentally the Forms of our Governments

For suspending our own Legislature and declaring themselves invested with Power to legislate for us in all cases whatsoever

He has abdicated Government here by declaring us out of his Protection and waging War against us

He has plundered our seas ravaged our Coasts burnt our towns and destroyed the lives of our people



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## THE DECLARATION OF INDEPENDENCE

dependent States that they are Absolved from all Allegiance to the British Crown and that all political connection between them and the State of Great Britain is and ought to be totally dissolved and that as Free and Independent States they have full Power to levy War conclude Peace contract Alliances establish Commerce and to do all other Acts and Things which Independent States may of right do And for the support of this Declaration with a firm reliance on the Protection of Divine Providence we mutually pledge to each other our Lives our Fortunes and our sacred Honor

JOHN HANCOCK.

### *New Hampshire*

JOSIAH BARTLETT  
WM WHIPPLE

MATTHEW THORNTON

### *Massachusetts Bay*

SAMUEL ADAMS  
JOHN ADAMS

ELBRIDGE GERRY  
ROBT TREAT PAINE

### *Rhode Island*

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FRANK HOPKINSON

JOHN HART  
ABRAHAM CLARK





# ARTICLES OF CONFEDERATION

[November 15 1777]

*To all to whom these Presents shall come we the undersigned  
Delegates of the States affixed to our Names send greeting*

**W**HEREAS THE DELEGATES of the United States of America in Congress assembled did on the fifteenth day of November in the year of our Lord One Thousand Seven Hundred and Seventy-seven and in the Second Year of the Independence of America agree to certain articles of Confederation and perpetual Union between the States of Newhampshire Massachusetts bay Rhodeisland and Providence Plantations Connecticut New York New Jersey Pennsylvania Delaware Virginia North-Carolina South-Carolina and Georgia in the Words following viz

ARTICLES OF CONFEDERATION AND PERPETUAL UNION BETWEEN THE STATES OF NEWHAMPSHIRE MASSACHUSETTS-BAY RHODEISLAND AND PROVIDENCE PLANTATIONS CONNECTICUT NEW YORK NE JERSEY PEN SYLVANIA DELAWARE MARY LAND VIRGINIA NORTH CAROLINA SOUTH-CAROLINA AND GEORGIA

ARTICLE I The stile of this confederacy shall be The United States of America.

ARTICLE II Each State retains its sovereignty freedom and independence and every power jurisdiction and right which is not by this confederation expressly delegated to the United States in Congress assembled.

ARTICLE III The said States hereby severally enter into a firm league of friendship with each other for their common defence the security of the liberties and their mutual and general welfare binding themselves to assist each other against all force offered to or attacks made upon them or



capable of being a delegate for more than three years in any term of six years nor shall any person being a delegate be capable of holding any office under the United States for which he or another for his benefit receives any salary fees or emolument of any kind

Each State shall maintain its own delegates in a meeting of the States and while they act as members of the committee

of the States

shall sit in Congress

Freedom of speech and debate in Congress shall not be impeached or questioned in any court or place out of Congress and the members of Congress shall be protected in their persons from arrests and imprisonments during the time of the going to and from and attendance on Congress except for treason felony or breach of the peace

ARTICLE VI No State without the consent of the United States in Congress assembled shall send any embassy to or receive any embassy from or enter into any conference agreement alliance or treaty with any king prince or state nor shall any person holding any office of profit or trust under the United States or any of them accept of any present emolument office or title of any kind whatever from any king prince or foreign state nor shall the United States in Congress assembled or any of them grant any title of nobility

No two or more States shall enter into any treaty confederation or alliance whatever between them without the consent of the United States in Congress assembled specifying accurately the purposes for which the same is to be entered into and how long it shall continue

No State shall lay any imposts or duties which may interfere with any stipulations in treaties entered into by the United States in Congress assembled with any king prince or state in pursuance of any treaties already proposed by Congress to the courts of France and Spain

No vessels of war shall be kept up in time of peace by any



capable of being a delegate for more than three years in any term of six years nor shall any person being a delegate be capable of holding any office under the United States for which he or another for his benefit receives any salary fees or emolument of any kind

Each State shall maintain its own delegates in a meeting of the States and while they act as members of the committee of the States

In determining questions in the United States in Congress assembled each State shall have one vote

Freedom of speech and debate in Congress shall not be impeached or questioned in any court, or place out of Congress and the members of Congress shall be protected in their persons from arrests and imprisonments during the time of their going to and from and attendance on Congress except for treason felony or breach of the peace

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No vessels of war shall be kept up in time of peace by any

















ARTICLES OF CONFEDERATION

ARTICLES OF CONFEDERATION

time of peace nor enter into any treaties or alliances nor coin money nor regulate the value thereof nor ascertain the sums and expenses necessary for the defence and welfare of the United States or any of them nor emit bills nor borrow money nor regulate the credit of the United States nor appropriate built or purchased or the number of land or sea forces to be raised nor appoint a commander in chief of the army or navy unless the States assent to the same or shall a question on any point not excepted from returning from day to day be determined unless the vote of majority of the United States in Congress assembled shall give the power to the United States of the United States. It shall be the power to appoint or remove the President of the United States.

on any other day be determined by the United States Congress. The Congress of the United States shall have the power to adjourn at any time within the United States, but not more than three days in any one session, except on the last day of the session, when it may adjourn for a longer period than three days, and the yeas and nays of the members present shall be entered on its journal. And the request of either house to the President to call before them any member of the other house shall be granted to the President.

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wh ch b l f c n f r t o n the o c e of nine  
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s t e  
... according to this confederation an

ARTICLE VI. Ceding to this confederation and joining in the measures of the United States shall be ad









# ARTICLES OF CONFEDERATION

19

In witness whereof we have hereunto set our hands in Congress Done at Philadelphia in the State of Pennsylvania the ninth day of July in the year of our Lord one thousand seven hundred and seventy-eight and in the third year of the independence of America.

On the part & behalf of the State of New Hampshire  
JOSEPH BARTLETT  
JOHN WENTWORTH Junr  
August 8th 1778

On the part and behalf of the State of Massachusetts Bay  
JOHN HANCOCK  
SAMUEL ADAMS  
ELBRIDGE GERRY  
FRANCIS DANA  
JAMES LOVELL  
SAMUEL HOLTON

On the part and behalf of the State of Rhode Island and Providence Plantations  
WILLIAM ELLERY  
HENRY MARCHANT  
JOHN COLLINS

On the part and behalf of the State of Connecticut  
ROGER SHEERMAN  
SAMUEL HUNTINGTON  
OLIVER WOLCOTT  
TITUS HOSIER  
ANDREW ADAMS

On the part and behalf of the State of New York  
JAS DUANE  
FRA LEVINS  
GOUV MORRIS  
WILLIAM DUER

On the part and behalf of the State of New Jersey  
JNO WITHERSPOON  
NATHL SCUDDER  
Novr 6 1778

On the part and behalf of the State of Pennsylvania  
ROBT MORRIS  
DANIEL ROBERDEAU  
JNO BARLARD SMITH  
WILLIAM CLINGAN  
JOSEPH REED 2d July  
1778



## ARTICLES OF CONFEDERATION

In witness whereof we have hereunto set our hands in Congress Done at Philadelphia in the State of Pennsylvania the ninth day of July in the year of our Lord one thousand seven hundred and seventy-eight and in the third year of the independence of America.

On the part & behalf of the State of New Hampshire  
JOHN WENTWORTH Junr  
August 8th 1778  
JOSIAH BARTLETT

On the part and behalf of the State of Massachusetts Bay  
JOHN HANCOCK  
SAMUEL ADAMS  
ELBRIDGE GERRY  
FRANCIS DANA  
JAMES LOVELL  
SAMUEL HOLTEN

On the part and behalf of the State of Rhode Island and Providence Plantations  
WILLIAM ELLERY  
HERRY MARCHANT  
JOHN COLLINS

On the part and behalf of the State of Connecticut  
ROGER SHERMAN  
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FRA LEWIS  
GOUV MORRIS  
WILLIAM DUER

On the part and in behalf of the State of New Jersey  
JNO WITHERSPOON  
NATHL SCUDDER  
Novr 26 1778

On the part and behalf of the State of Pennsylvania  
ROBT MORRIS  
DANIEL ROBERDEAU  
JNO BAYARD SMITH  
WILLIAM CLINGAN  
JOSEPH REED 29d July  
1778



# THE BASIC DOCUMENTS

II

## THE CONSTITUTION IN THE MAKING



# RESOLUTION OF CONGRESS

[February 11 1791]

WHEREAS THERE IS PROVISION in the Articles of Confederation & perpetual Union for making alterations therein by the Assent of Congress of the United States and of the legislatures of the several States And here experience hath evince'd that the defects in the present Confederation as a mean to remedy which certain of the States and particularly the State of New York have expressed their delegates in Congress have urged certain for the purposes expressed in the following resolution and a Convention appearing to them to be the most desirable in these states for the improvement of the same

Resolved That the present Congress be expedient that on the second Monday of May next a Convention of delegates who shall be appointed by the several States be held at Philadelphia for the purpose of revising the Articles of Confederation and reporting to Congress and as shall be directed in the said Convention and the ratification thereof shall be the business of the States and the Government of the United States





## RESOLUTION OF CONGRESS

[February 21 1787]

**W**HEREAS THERE IS PROVISION in the Articles of Confederation & perpetual Union for making alterations therein by the Assent of a Congress of the United States and of the legislatures of the several States And whereas experience hath evinced that there are defects in the present Confederation as a means to remedy which several of the States and particularly the State of New York by express instruction to their delegates in Congress have suggested a convention for the purposes expressed in the following resolution and such Convention appearing to be the most probable means of establishing in these states a firm national government

Resolved that in the opinion of Congress it is expedient that on the second Monday in May next a Convention of delegates who shall have been appointed by the several states be held at Philadelphia for the sole and express purpose of revising the Articles of Confederation and reporting to Congress and as shall when agreed to in Congress and confirmed by the states render the federal constitution adequate to the exigencies of Government & the preservation of the Union

THE VIRGINIA PLAN AS OFFERED BY  
RANDOLPH

[May 29 1787]

1 RESOLVED That the articles of Confederation ought to be so corrected and enlarged as to accomplish the objects proposed by their institution namely common defence security of liberty and general welfare

2 RESOLVED therefore That the rights of suffrage in the National Legislature ought to be proportioned to the Quotas of contribution or to the number of free inhabitants as the one or the other rule may seem best in different cases

3 RESOLVED That the National Legislature ought to consist of two branches

4 RESOLVED That the members of the first branch of the National Legislature ought to be elected by the people of the several States every                      for the term of                      to be of the age of                      years at least to receive liberal stipends by which they may be compensated for the devotion of their time to public service to be ineligible to any office established by a particular State or under the authority of the United States except those peculiarly belonging to the functions of the first branch during the term of service and for the space of                      after its expiration to be incapable of re-election for the space of                      after the expiration of their term of service and to be subject to recall

5 RESOLVED That the members of the second branch of the National Legislature ought to be elected by those of the first out of a proper number of persons nominated by the individual Legislatures to be of the age of                      years at least to hold their offices for a term sufficient to ensure their independency to receive liberal stipends by which they may be compensated for the devotion of their time to public service and to be ineligible to any office established by a particular State or under the authority of the United States except those pe-









THE VIRGINIA PLAN II

to hold their offices during good behaviour to receive punctually stated times a fixed compensation for their services in which no increase or diminution shall be made so as to affect the person actually in office at the time of such increase or diminution

1 RESOL E That the national Legislature be empowered to appoint the national Judiciary

13 RESOL D That the jurisdiction of the national Judiciary shall extend to all appeals from the decisions of the national officers and question the validity of all laws made for the ad

14 RES ID That the President be made for the ad mms of the full term in which the limits of the United States shall be made for the ad

ment and the jurisdiction of the President shall be made for the ad ber of the United States shall be made for the ad

15 RES ID That the President shall be made for the ad unuan Congress shall be made for the ad

after the President shall be made for the ad for the President shall be made for the ad

16 RES ID That the President shall be made for the ad if the President shall be made for the ad

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## THE NEW JERSEY PLAN

authorized to make such requisitions in proportion to the whole number of white and other free citizens and inhabitants of every age sex and condition including those bound to servitude for a term of years and three fifths of all other persons not comprehended in the foregoing description except Indians not paying taxes that if such requisitions be not complied with in the time specified therein to direct the collection thereof in the non-complying States and for that purpose to devise and pass acts directing and authorizing the same provided that none of the powers hereby vested in the United States Congress shall be exercised without the consent of at least States and in that proportion if the number of confederated States should hereafter be increased or diminished

4 RESOLVED That the United States Congress be authorized to elect a federal Executive to consist of persons to continue in office for the term of years to receive punctually at stated times a fixed compensation for the services in which no increase or diminution shall be made so as to affect the persons composing the Executive at the time of such increase or diminution to be paid out of the federal treasury to be incapable of holding any other office or appointment during the term of service and for years thereafter to be ineligible a second time and removable by Congress on appointment by a majority of the Executives of the several States That the executive besides the general authority to execute the federal acts ought to appoint all federal officers not otherwise provided for and to direct all military operations provided that none of the persons composing the federal executive shall on any occasion take command of any troops so as personally to conduct any military enterprise as General or in any other person

5 RESOLVED That a federal Judiciary be established, to consist of a supreme Tribunal the Judges of which to be appointed by the Executive and to hold their offices during good behavior to receive punctually at stated times a fixed compensation for the services in which no increase or diminution



# THE NEW JERSEY PLAN

authorized to make such requisitions in proportion to the whole number of white and other free citizens and inhabitants of every age, sex, and condition including those bound to servitude for a term of years, and three fifths of all other persons not comprehended in the foregoing description except Indians not paying taxes if at such requisitions be not complied with in the time specified therein to direct the collection thereof in the non-complying States and for that purpose to devise and pass acts direct and authorizing the same provided that none of the powers hereby vested in the United States in Congress shall be exercised without the consent of at least three States and in that proportion if the number of confederated States should hereafter be increased or diminished.

4 RESOLVED That the United States in Congress be authorized to elect a federal Executive to consist of one person to continue in office for the term of four years to receive punctually at stated times a fixed compensation for their services in which no increase or diminution shall be made so as to affect the persons composing the Executive at the time of such increase or diminution to be paid out of the federal treasury during their term of service and for four years thereafter to be ineligible a second time and eligible by Congress on application by a majority of the Executive of the several States. That the executive besides their general authority to execute the federal acts ought to appoint all federal officers not otherwise provided for and to direct all military operations provided that none of the persons composing the federal executive shall on any occasion take command of any troops so as personally to conduct any military enterprise as a General or in any other capacity.

5 RESOLVED That the federal Judiciary be established to consist of a Supreme Tribunal the Judge of which to be appointed by the Executive and to hold the offices during good behavior to receive punctually at stated times a fixed compensation for their services in which no increase or diminution



# THE BASIC DOCUMENTS

## III

### THE CONSTITUTION









## A BRIEF SUMMARY

of state trade regulations are forbidden because they invade the dormant commerce power of Congress and that the states may not directly tax an instrumentality of the federal government (a prohibition which has also been applied in reverse so as to restrict the national government in taxing the states). Neither of these legal concepts is expressed in any specific clause of the Constitution they are said to arise from the nature of the federal system itself.

4 *Interstate Relations* The provisions in Article IV Sections 1 and 2 relating to this subject are survivals of the interstate compact provisions of the Articles of Confederation. Other provisions are the interstate compact clause of Article I Section 10 Paragraph 3 whose possibilities as a source of interstate cooperation are only recently being realized and the arrangement in Article III Section 2 which gives the federal judiciary jurisdiction over interstate disputes. Finally the commerce clause has been held to prevent the states from erecting commercial barriers against the neighbors so as to favor their own citizens at the expense of the rest of the nation.

5 *Elections* The power to prescribe the qualifications for the national Constitution to the several states though the some qualifications and subsequent amendment have extended these qualifications much further. Article I Section 2 provides that those who vote for Representatives must have the qualifications of those who vote for the most numerous branch of the state legislature and the Seventeenth Amendment prescribes the same qualification for those who elect Senators. The states are also forbidden to deny the suffrage on the ground of race or color (Amendment Fifteen) and on the ground of sex (Amendment Nineteen). The right to cast vote for federal officers in accordance with valid state regulations can be protected by Congressional legislation. As for election to the presidency the states are left free to prescribe qualification to vote for the Electoral College (subject of course to Amendments Fifteen and Nineteen) and it was originally assumed that the Electors so chosen would make a free choice. But in practice the Electors







## A BRIEF SUMMARY

them as reasonably justified by some public danger. Amendments Four through Eight protect certain procedural rights of the individual—generally speaking, the right to be free from arbitrary treatment by police officers and the right to a fair trial. Amendments Thirteen through Fifteen are the so-called Civil War Amendments passed after that conflict largely to ensure the newly freed Negro his civil rights. From the point of view of litigation the Fourteenth has been by far the most important. For some twenty years after its passage in 1868 the due process clause of that Amendment was interpreted chiefly as a protection for property holders but today it is construed to restrict the states in somewhat the same way that the first eight Amendments limit the national government.





# LETTER OF THE CONVENTION TO CONGRESS

In Convention September 17 1787

SIR WE HAVE NOW THE HONOR to submit to the consideration of the United States in Congress assembled that Constitution which has appeared to us the most advisable  
The friends of our country have long seen and desired that the power of making war peace and treaties of levying money and regulating commerce and the correspondent executive and judicial authorities should be fully and effectually vested in the general government of the Union but the impropriety of delegating such extensive trust to one body of men is evident— Hence results the necessity of a different organization

It is obviously impracticable in the federal government of these States to secure all rights of independent sovereignty to each and yet provide for the interest and safety of all— Individual entering into society must give up a share of liberty to preserve the rest The magnitude of the sacrifice must depend as well on situation and circumstances as on the object to be obtained It is at all times difficult to draw with precision the line between those rights which must be surrendered and those which may be reserved and on the present occasion this difficulty was increased by a difference among the several States as to their situation extent habits and particular interests.

In all our deliberations on this subject we kept steadily in our view that which appears to us the greatest interest of every true American the consolidation of our Union in which alone our prosperity felicity safety perhaps our national existence This important consideration seriously and deeply impressed on our minds led each State in the



RESOLUTION OF THE CONVENTION

[September 1 1911]

In Convent a Mc la Septe 1e 10 18

PRESENT The States of New Hampshire, Massachusetts, Connecticut, Maryland, Pennsylvania, Delaware, New Jersey, New York, New Mexico, California, South Carolina, and Georgia.

Resolved That the Convention doth hereby certify to the people of the United States in Congress assembled that it has chosen for their assent and ratification the following Declaration of Independence and ratifying the same as the sense of the people of the United States in Congress assembled

[illegible]



RESOLUTION OF THE CONVENTION

[September 1 19]

In Convent o: Mo da Septe ber l ti l 8/

PRESENT The State of New Hampshire Massachusetts  
Connecticut Maryland New Jersey  
Pennsylvania Delaware North Carolina  
South Carolina and Georgia

Resolved That the Constitution be held before the United States in Congress assembled and that the adoption of this Convention that it should afterwards be submitted to a convention of delegates from the several States by the people thereof under their recommendation of the Legislature of their assent and ratification and that each and every one assenting to and ratifying the same should give notice thereof to the United States in Congress assembled

and raising the  
United States Congress as enabled  
Resolved That the opening of the present session that as  
soon as the Constitution shall have been certified this  
Congress should  
and the electors should be appointed by the States  
which shall certify the names of the electors and the  
electors should assemble at the President and the  
time and place for the meeting of the electors under the Con  
stitution that after the public election the electors should be  
appointed and the meeting of the electors should be  
the electors should be fixed for the election of  
the President and the electors should be certified signed  
sealed and directed by the Constitution requires to the sec  
retary of the United States Congress assembled that the  
electors and representatives should convene at the time and  
place designated by the Constitution should appoint a president  
of the Senate the sole purpose of receiving opening and  
counting the votes for President and that after he shall be

## THE BASIC DOCUMENTS

chosen the Congress together with the President  
without delay proceed to execute this Constitution  
*By the unanimous order of the convention*

GEORGE WASHINGTON *President*

WILLIAM JACKSON *Secretary*

# THE CONSTITUTION OF THE UNITED STATES

WE THE PEOPLE OF THE UNITED STATES IN ORDER TO FORM A MORE PERFECT UNION ESTABLISH JUSTICE, INSURE DOMESTIC TRANQUILITY PROVIDE FOR THE COMMON DEFENCE, PROMOTE THE GENERAL WELFARE, AND SECURE THE BLESSINGS OF LIBERTY TO OURSELVES AND OUR POSTERITY DO ORDAIN AND ESTABLISH THIS CONSTITUTION FOR THE UNITED STATES OF AMERICA.

## ARTICLE I

SECTION 1 All legislative Powers herein granted shall be vested in a Congress of the United States which shall consist of a Senate and House of Representatives

SECTION (1) The House of Representatives shall be composed of Members chosen every second Year by the People of the several States, Electors in each State shall have

Branch of the State

( ) No person shall be a Representative who shall not have attained to the Age of Twenty five years and been seven Years a Citizen of the United States and who shall not when elected be an Inhabitant of that State in which he shall be chosen

(3) Representatives and direct Taxes shall be apportioned among the several States which may be included within this Union according to the respective Numbers which shall be determined by adding to the whole Number of free Persons including those bound to Service for a Term of Years and excluding Indians not taxed three fifths of all other Persons The actual Enumeration shall be made within three Years after the first Meeting of the Congress of the United States and within every subsequent Term of ten Years in such Manner



## THE BASIC DOCUMENTS

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*By the unanimous order of the convention*

GEORGE WASHINGTON *President*

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## THE AMERICAN CONSTITUTION

(2) The Senate shall chuse their other Officers and also a President pro tempore in the Absence of the Vice President, or when he shall exercise the Office of President of the United States

(6) The Senate shall have the sole Power to try all Impeachments When sitting for that Purpose they shall be on Oath or Affirmation When the President of the United States is tried the Chief Justice shall preside And no Person shall be convicted without the Concurrence of two thirds of the Members present.

(7) Judgment in Cases of Impeachment shall not extend further than to removal from Office and disqualification to hold and enjoy any Office of honor Trust or Profit under the United States but the Party convicted shall nevertheless be liable and subject to Indictment Trial Judgment and Punishment according to Law

SECTION 1 (1) The Times Places and Manner of holding Elections for Senators and Representatives shall be prescribed in each State by the Legislature thereof but the Congress may at any time by Law make or alter such Regulations except as to the Place of chusing Senators

(2) The Congress shall assemble at least once in every Year and such Meeting shall be on the first Monday in December unless they shall by Law appoint a different Day

SECTION 2 (1) Each House shall be the Judge of the Elections Returns and Qualifications of its own Members and a Majority of each shall constitute a Quorum to do Business but a smaller Number may adjourn from day to day and may be authorized to compel the Attendance of absent Members in such Manner and under such Penalties as each House may provide

(2) Each House may determine the Rules of its Proceedings punish its Members for disorderly Behavior and with the Concurrence of two thirds expel a Member

(3) Each House shall keep a Journal of its Proceedings and from time to time publish the same excepting such Parts as may in their Judgment require Secrecy and the Yeas and



## THE AMERICAN CONSTITUTION

the Votes of both Houses shall be determined by Yeas and Nays and the Names of the Persons voting for and against the Bill shall be entered on the Journal of each House respectively. If any Bill shall not be returned by the President within ten Days (Sundays excepted) after it shall have been presented to him the Same shall be a Law in like Manner as if he had signed it unless the Congress by their Adjournment prevent its Return in which Case it shall not be a Law.

( ) Every Order Resolution or Vote to which the Concurrence of the Senate and House of Representatives may be necessary (except on a question of Adjournment) shall be presented to the President of the United States and before the Same shall take Effect he shall be approved by him or being disapproved by him he shall be approved by two thirds of the Senate and House of Representatives respectively to the Rules and Limitation upon the Exercise of the Bill.

SECTION 8 (1) The Congress shall have Power To lay and collect Taxes, Duties, Imports and Exports to pay the Debts and provide for the common Defence and general Welfare of the United States but all Duties Imports and Exports shall be uniform throughout the United States.

(2) To borrow Money on the Credit of the United States  
(3) To regulate Commerce with foreign Nations and among the several States and with the Indian Tribes  
(4) To establish a uniform Rule of Naturalization and uniform Laws the subject of Bankruptcies throughout the United States.

(5) To regulate the Value of Coin and of foreign Coin and to fix the Standard of Weights and Measures  
(6) To provide for the Punishment of counterfeiting the Securities and United States Post Office and Post Roads.

(7) To establish Post Office and Post Roads  
(8) To promote the Progress of Science and useful Arts by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries  
(9) To constitute Tribunals inferior to the Supreme Court  
(10) To define and Punish Piracies and Felonies committed



## THE AMERICAN CONSTITUTION

be suspended unless when in Cases of Rebellion or Invasion  
the public Safety may require it

(3) No Bill of Attainder or ex post facto Law shall be passed  
(4) No Capitation or other direct tax shall be laid unless  
in Proportion to the Census or Enumeration herein before  
directed to be taken.

(5) No Tax or Duty shall be laid on Articles exported from  
any State

(6) No preference shall be given by any Regulation of Com-  
merce or Revenue to the Ports of one State over those of an-  
other nor shall Vessel bound to or from one State be  
obliged to enter clear of port Duty in another

(7) No Money shall be drawn from the Treasury but in  
Consequence of Appropriation made by Law and a regular  
Statement and Account of the Receipt and Expended of  
all public Money shall be published from time to time

(8) No Title of Nobility shall be granted by the United  
States And no Person holding an Office of Profit or Trust  
under them shall hold at the same time Title of any kind  
except of any present Emolument Office Title of any kind  
whenever from any King Prince or State

SECTION 10 (1) No State shall enter into any Treaty Al-  
liance or Confederation grant Letters of Marque and Re-  
prisal or coin Money mint Bills of Credit make any Thing but  
gold and silver Coins a Tender in Payment of Debts pass any  
Bill of Attainder ex post facto Law impairing the  
Obligation of Contracts or grant any Title of Nobility

(2) No State shall without the Consent of the Congress  
lay any Impost or Duties on Imports or Exports except what  
may be absolutely necessary for executing in respect on Laws  
and the net Produce of all Duties and Imposts laid by any  
State on Imports or Exports shall be for the Use of the Treas-  
ury of the United States and all such Law shall be subject  
to the Review and Control of the Congress

(3) No State shall without the Consent of Congress lay  
any Duty of Tonnage keep Troops or Ships of War in time  
of Peace enter into any Agreement or Compact with another



## THE AMERICAN CONSTITUTION

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(7) No Money shall be drawn from the Treasury but in Consequence of Appropriations made by Law and a regular Statement and Account of the Receipt and Expenditures of all public Money shall be published from time to time

(8) No Title of Nobility shall be granted by the United States And no Person holding an Office of Profit or Trust under them shall at the same time hold an Office of Profit or Trust

cept of any present Imoluments Office Title of any kind while he continues in such Office

SECTION 10 (1) No State shall enter into any Treaty Alliance or Confederation grant Letters of Marque and Repression coin Money or Bill of Credit make any Thing but gold and silver Coins a Tender in Payment of Debts pass any Bill of Attainder ex post facto Law or Law impairing the Obligation of Contracts or grant any Title of Nobility

(2) No State shall lay any Imposts or Duties on Imports or Exports except what may be absolutely necessary for executing its inspection Laws and the net Produce of all Duties and Impositions laid by any State on Imports or Exports shall be for the Use of the Treasury of the United States and all such Laws shall be subject to the Revision and controul of the Congress

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## THE AMERICAN CONSTITUTION

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Obligation of Contracts or grant any Title of Nobility

(2) No State shall obstruct the Importation of Goods  
lay any Import or Duty on Imports except what  
may be absolutely necessary for regulating Commerce on Laws  
and the Importation of all Duties and Imports laid by any  
State on Imports shall be the same as the Duty of the Treas-  
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## THE AMERICAN CONSTITUTION

one Vote A quorum for this Purpose shall consist of a Member or Members from two-thirds of the States and a Majority of all the States shall be necessary to a Choice In every Case after the Choice of the President the person having the greatest Number of Votes of the Electors shall be the Vice President But if there should remain two or more who have equal votes the Senate shall chuse from them by Ballot the Vice President.

(3) The Congress may determine the Time of chusing the Electors and the Day on which they shall give their Votes which Day shall be the same throughout the United States

(4) No Person except a natural born Citizen or a Citizen of the United States at the time of the Adoption of this Constitution shall be eligible to the Office of President neither shall any Person be eligible to that Office who shall not have attained to the Age of thirty five Years and been fourteen Years a Resident within the United States

(5) In Case of the Removal of the President from Office or of his Death Resignation or Inability to discharge the Powers and Duties of the said Office the same shall devolve on the Vice President and the Congress may by Law provide for the Case of Removal Death Resignation or Inability both of the President and Vice President declaring what Officer shall then act as President and such Officer shall act accordingly until the Disability be removed or a President shall be elected

(6) The President shall at stated Times receive for his Services a Compensation which shall neither be increased nor diminished during the Period for which he shall have been elected and he shall not receive within that Period any other Emolument from the United States or any of them

(7) Before he enter on the Execution of his Office he shall take the following Oath or Affirmation — I do solemnly swear (or affirm) that I will faithfully execute the Office of President of the United States and will to the best of my Ability preserve protect and defend the Constitution of the United States

SECTION 2 (1) The President shall be Commander in Chief



THE AMERICAN CONSTITUTION

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SECTION 2. (1) The President shall be Commander in Chief



## Key to Economic Progress

lent fluctuation at a high level of prosperity is a primary responsibility of the American government

Often economic progress results from the conception and introduction of new ideas—creating economic opportunities. Brilliant new concepts or discoveries—harnessing electricity, the development of plastic material, atomic fission—do not follow a routine schedule. They occur almost unpredictably and at irregular intervals. The progress they engender therefore cannot flow in a continuously smooth stream.

Nor can the nation produce and consumption be held in rigid balance. Mild fluctuation is normal in the process of growth and economic development. Deep depression or runaway inflation on the other hand are neither normal nor are they preventable breakdowns in the normal functioning of a free market production economy.

At least twice in the Second World War timely use of the Government's fiscal and monetary powers prevented mild recession from developing into serious depression. Many economic historians believe that the time unfrocked calamities of the American century have been the byproducts of built-in stability. Still, it should not be the failure of the human factor. In the last analysis, it is the failure of man's economic judgment and his inability to reason.

The cause of the instability in a free economy is not the lack of money payments to people for their work, but the failure of the money to buy the things which men need to live. The constant flow of labor and capital for production and distribution and a resulting flow of products and services back to the people.



In everyday life the farmer pays his help the factory manager pays the mechanic the airline pays the pilot, the corporation pays interest to bond holders, and so on. The people getting paid for their services pay the grocer for food, the gas company for heat the doctor for professional services the city for sanitation and police protection, and the Federal government for postal services highways and even jet fighters

There are therefore two continuous streams running in opposite directions one is the stream of goods and services the result of the efforts of people to produce and distribute what consumers will want the other is the stream of money payments the result of people being paid for their work and paying others for products and services. If both streams flow at high and stable levels the economy will operate at satisfactory levels of relative stability Fluctuations will be mild, without violent change in prices of goods and services or in the totals of employment and income

Many problems however are involved in keeping the two streams in balance The flow of goods and services is ever changing both in size and composition. Some products are sold during certain seasons yet their production goes on throughout the year New products appear on the market, affecting production and employment in other lines International complications cause shifts in production and distribution. Defense needs divert labor and materials to the production of armaments Floods droughts or strikes cause unpredictable changes in the smooth flow of the two streams

These causes of change are more or less common to all modern economies there is an additional significant cause of change in a free economy the individual freedom of choice The consumer as a rule is free to buy what he likes and in whatever quantities his budget can stand. More important, the management is free to decide whether to

## Key to Economic Progress

expand facilities start production of new items introduce new machinery or distribute larger dividends to stock holders instead of re-investing company profits Millions of individual decisions taken together can cause important changes in the flow of the two streams and consequently in levels of income and employment

In a monolithic industrial free economic choice is almost non-existent Decisions are made by a political elite which holds the pinnacle of the politico-economic pyramid This stifling of freedom is a primitive method of achieving stability Seen historically it is another instance of a society subordinating the individual to the omnipotent will of the State

In a democratic society on the other hand it is considered paramount that freedom of choice for the individual be preserved To achieve relative stability without unduly curbing individual freedom is a main objective of government To achieve this end the American people have voted their government certain tools These are intended primarily to regulate the volume and flow of money

### Instruments for preserving stability

The actual management of the money stream in the American economy depends on two factors the quantity of money (that is the number of dollars in circulation) and the frequency with which it moves from one hand to another

If the money flow is kept in relative balance with either the total quantity of dollars or the rate at which money passes from person to another or both

In the United States the rate at which people spend their money is influenced by legislation favoring development of a large group of middle income families with a high tendency to consume This influence however is

direct and the government does not control the decisions of individuals. But government is equipped with a number of tools to regulate, indirectly and directly, the supply of money.

Under the Employment Act of 1946 the American government is formally committed to the preservation of economic stability. The gist of the Act is that government shall cooperate with industry, labor, and agriculture to promote maximum employment and production, avoid serious depressions, and prevent disruptive changes in price levels—and thus within the framework of free competitive enterprise. The Act has become a cornerstone in the development of the American economic system. In the post-war years its principles were credited with staving off serious economic dislocation despite unsettled world conditions.

A government may take drastic action like rationing goods, fixing prices, and allocating materials and labor. But in a free society such restrictive measures are acceptable only in serious emergencies, as in wartime or in the event of economic catastrophe. The American government relies primarily on indirect regulatory instruments. At its disposal are many tools with which it can promote a steady rise in income and employment and iron out fluctuations around points of balance.

### *Monetary policies*

One broad category of tools comes under the heading of monetary policies. The monetary policies deal mainly with the commercial banking system and are for the most part administered by the Federal Reserve System. One device used by the Federal Reserve System to control the volume of money is manipulation of so-called reserve requirements. Approximately seven thousand private banks are members of the Federal Reserve System. These member banks must comply with reserve requirements, i.e.

must deposit a certain percentage of their assets with one of the twelve Federal Reserve Banks. Reserve requirements are not rigid; they can be increased or decreased by the Board of Governors of the Federal Reserve System. When the Federal Reserve decreases reserve requirements, banks can lend and invest more freely. The general tone of the market becomes easy with a corresponding decrease in the cost of borrowing and in the rate of interest. The opposite becomes true when the Federal Reserve raises reserve requirements.

With the experience of the past decades, American bankers are very sensitive to Federal Reserve actions and consider even a slight increase in reserve requirements a caution signal. Thus raising reserve requirements, in addition to its direct effect on money supply, has a psychological influence on the banking community which should not be underrated.

Another weapon in the Federal Reserve arsenal is the power to adjust the interest rate on rediscounting. A member bank can increase its cash funds or deposits with the Reserve Bank by depositing commercial paper. It is evidence that deposits are owed the member bank to be rediscounted by the Reserve Bank. If the Federal Reserve wishes to encourage credit flow and spending, the rediscount rate is lowered. If it deems contraction of credit wise, the Bank raises the discount rate.

Still another Federal Reserve instrument is the open market operation. The Bank may buy or sell certain government securities on the open market, offering them to a member bank. When the Federal Reserve buys money flows into circulation; when it sells, money flows into the Reserve and steps circulating until the Board of Governors decides it appropriate. By manipulating rediscount rates and engaging in open market operations, the Federal Reserve maintains a regular check on the supply of money. Besides having direct economic effect, the employment of these

devises serves also as a signal to the nation of prevailing Federal Reserve attitudes and its reading of economic trends.

There is a major difference between rediscounting operations and open market operations. In open market operations the initiative rests exclusively with Federal Reserve. In other words it is up to the Federal Reserve to decide if purchase or sale of government securities in the market is advantageous to the over-all

— stock market credit consumer credit, and real estate credit —

It is generally acknowledged that by regulating margin requirements — i.e. the proportion of cash required by law for the purpose of securities — the danger of excessive credit in the stock market is minimized the market fluctuations are kept within safe limits.

Another tool at the disposal of government is the temporary restraint of consumer credit in times of emergency. Through proper manipulation of consumer credit consumer demand can be brought in line with current supply. Removal of restrictions on the other hand can spur demand when increased consumption is deemed necessary.

A similar set of devices may be used to regulate real estate credit, especially for residential properties. Authority to regulate certain kinds of real estate credit was temporarily granted the President in September 1950 when strong inflationary pressures and defense requirements made such authority necessary. These restrictions have since been lifted.

### *Fiscal Policies*

Old sound finance theory maintained that governments could afford to go ahead with needed projects

## Key to Economic Progress

only in periods of prosperity. This theory is now discarded. A modern economist would support a policy of economy in a period of economic depression. Instead, modern economic thinking holds that taxation and spending policies—the fiscal policies—should provide an array of useful tools for ironing out economic fluctuations.

The change in thinking is fairly recent. Three decades ago it was generally believed that government action on sufficient scale to cope with depression could not be taken without jeopardizing the monetary and fiscal structure.

In a climate of such economic thinking, fiscal policy was conceived in narrow and restricted terms. When the severe depression of the early thirties set in, the United States was unprepared to meet the challenge. Yet thanks to its democratic framework, the country profited from the errors of the past. Soon positive measures for a counter depression fiscal policy were adopted into law.

At present the American government has the fiscal tools and the economic thinking and administrative machinery to use them properly. The tools are not foolproof; they are being steadily strengthened and supplemented by appropriate legislation. The advantage of democracy is that it can meet the challenge of times without resorting to bloodshed or self-destruction.

What are the fiscal devices at the disposal of the American government today? One is to divide them into two broad categories by the way they function. Some function all the time; others are used by government at particular times. The first category is the permanent line of social security benefits furnished by the Federal government. The second category is the temporary tax. In the case of the temporary tax, the government can raise or lower tax rates and in reaching the public mind there are three sources of income in a free economy—

business investments, consumer spending, and government expenditures. Only the third can be wholly under government control without excessive repression of individual freedom. While government can influence the other two sources of income the influence must be indirect, through monetary policy. Fiscal policy therefore acquires great significance, especially in view of the expansion of government operations in modern times.

Through the operation of automatic stabilizers the government gains time to proceed with discretionary measures deemed necessary to meet disruption in levels of income and employment. More specially in times of declining business activity and increased unemployment, automatic stabilizers like social security and unemployment compensation go quietly to work providing many consumers with purchasing power. If farm prices are falling farmers receive subsidies which also maintain their purchasing power. And, in times of economic prosperity as income increases, tax receipts increase automatically.

While automatic stabilizers unobtrusively exert their influence government can go forward with more drastic legislative measures. If the country appears headed for a period of declining economic activity Congress may reduce taxes and authorize expenditures for public works to stimulate the economy. In times of inflationary pressure the automatic stabilizers exert a restraining influence while the government raises taxes and cuts inflationary spending.

None of the monetary and fiscal devices can by itself prevent economic fluctuations. But their combined and coordinated use can alleviate economic dislocations. The monetary tools can be used more quickly because their application is entrusted to a single agency, the Federal Reserve. The automatic fiscal stabilizers also work swiftly responding automatically to rise and fall in levels of income and employment.

## Key to Economic Progress

### Statistics and economics an aid to Government

The choice of appropriate fiscal and monetary policies is not left to chance. The Employment Act of 1946 established the Council of Economic Advisers. The Council gathers timely authoritative information on economic developments and trends; it appraises the programs and activities of the Federal government in its effort to maintain maximum employment, production, and purchasing power; it develops and recommends to the President national economic policies designed to avoid economic fluctuations or diminish the effects thereof; and finally it assists and advises the President in preparing his Economic Message to Congress. This annual report serves as a blueprint showing clearly where the American economy stands and where it is going. In view of the great influence of the American economy on the rest of the world, this Message is probably one of the most important documents of our time.

By gathering reliable statistical data the American government obtains a comprehensive picture of the national economy.

The Employment Act of 1946 provided for the machinery of economic forecasting and for the legislative process. The Act established a Joint Committee on the Economy, Report of the President composed of members of the Senate and seven members of the House of Representatives. This Committee makes a continuing study of matters pertaining to the Federal Government, its Report and submits to the Senate and the House its findings and recommendations.

The American government has developed with an impressive array of instruments for the control of national fluctuations and the maintenance of the level of income and employment.



All these instruments and devices may appear complicated to the layman—and they are. But their outstanding feature is that they represent a sincere and mostly successful effort to achieve stability without destroying, in the process, the individual's freedom of action.

These instruments were not developed overnight; they are the results of experience gained by trial and error. It would be unwise to suggest they be copied by other countries. Conditions differ greatly from one country to another. Nevertheless, these instruments merit study. They are historic evidence that in a democratic society solutions can be found for most social and economic problems without sacrificing individual freedom and dignity.



## EPILOGUE

Even in this age of revolutionary change the basic aspirations of ordinary men hold constant in every land. The world's millions pursue personal dignity and freedom, national independence and material well-being. Yet, despite common goals there is much confusion as to the roads leading to them. Men often advocate or use means which virtually negate their ends—and their hopes. This confusion has bred strife and rivalry further obscuring basic objectives and leaving only bitter hatred, frustration, and bewilderment. If a powerful search light could probe through the heavy fog of misinformation and calculated distortion it would reveal two ideas contending for the support and loyalty of mankind. One is that the omnipotent State must have total control over the life of the individual. The other upholds the ability of Man to lead his own life and contribute to the common well-being within a democratically accepted legal framework.

As a small contribution in the search for better understanding of the issues that confront us I have tried to outline fundamental principles and features of an economic system which upholds the freedom and dignity of Man, while assuring his material well-being. This economic system is a sweeping rebuff to exploitation—it could not survive unless it produced for the benefit of the many. Mass production cannot be sustained unless there is mass consumption which, in turn depends upon mass purchasing

power. This is a creative circle in which people participate freely not only as producers but also as enjoyers of the fruits of their labor.

By satisfying not merely in theory but in practice two major aspirations of Man—freedom and material well-being—the American system is a far reaching advance over old style capitalism and Soviet monolithic industrialism.

Still one may ask. What practical meaning can all this have for the million in the vast expanse of Asia or to the agitated youth who shout anti-Western slogans in the streets of a Near East capital or to the multitudes of Africa startled by sudden awakening to the complexities of the twentieth century. The answer is that the modern world is a complex world it is a time more complicated every day. Mankind cannot turn to the idyllic simplicity of earlier time. On the contrary all nations are steadily moving into the realm of industrialization. The choice facing the people is not between idyllic simplicity and the modern complexity. Industrialization and complexity are sure. The choice is between freedom and totalitarianism.

The opponents of freedom will argue that democratic processes will take too long for the impatient nations of the underdeveloped. It is a fallacy. The whims of fate that the line of the future is not in the hands of fate make it less difficult for the underdeveloped nations to have the democratic way. They need not start with the principles of the tools of freedom with the same principles. They can find channels for their development in the principles. These principles are not new but old. The road to a better future is not a new road but an old road. From the point of view of the underdeveloped nations the road to a better future is not a new road but an old road. It is a road that are truly to travel the road to

industrialism cannot be overestimated. And not only have they a responsibility to help the underdeveloped nations their self interest demands they do so. Battles of hydrogen bombs and ballistic missiles may never be fought but the battle between democracy and totalitarianism goes on relentlessly even in the form of competing economic systems. This battle is rarely spectacular yet its outcome will determine the world we live in for the foreseeable future.

A major advantage of the American economic system is its elasticity. It can adjust to meet particular needs. It can expand or contract in response to the changing requirements of a nation. In 1861 Abraham Lincoln wrote epigrammatically

"The legitimate object of government is to do for a community of people whatever they need to have done but cannot do at all or cannot so well do for themselves in their separate and individual capacities.

This philosophy of government that vast majority of Americans has come to believe in and to practice. It embraces giant private enterprises like General Motors and government projects of equal magnitude like the Tennessee Valley Authority or the atomic plants at Oak Ridge, Tennessee and Hanford Washington. Countries entering industrialization can apply this philosophy of government to their own conditions and problems. The extent and scope of government responsibility from one country to another may vary considerably. Most important is that the people are spared the suffering and indignity of a totalitarian state.

Acceptance of these principles does not mean the world will be shaped in the American image. The totalitarian ideologies of our time promise to

solve the world's economic and social ills by placing total power in the hands of an elite. Experience has shown that this promise involves the sacrifice of human freedom and the sacrifice of many human lives. Not even the members of the elite are safe. Besides heavy sacrifices extorted by the totalitarian State are not necessarily matched by substantial material gains for the people. On the other hand, American experience has demonstrated that economic and social improvement can be attained in a free society.

The American system of democracy and individualism is a better method of providing the people with the material goods which stand in the way of their great spiritual freedom.

In this book the author has shown that principles which are the basis of the American way of life are the key to the solution of the world's economic and social problems.

